

Financial Statements

**Gratiot County Community
Mental Health Services**

Alma, Michigan

September 30, 2008



Gratiot County Community Mental Health Services
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INDEPENDENT AUDITOR'S REPORT

Gratiot County Community Mental Health Services
Alma, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gratiot County Community Mental Health Services (the Board), as of and for the year ended September 30, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Board as of September 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2009, on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 8, 2009

MANAGEMENT'S DISCUSSION and ANALYSIS



Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

The management of Gratiot County Community Mental Health Services (GCCMHS) presents the following overview and analysis of the financial activities during the past year. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation.

Basic Financial Statements:

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information) which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information) which shows revenues and expenses and the change in net assets for the year.

Fund financial statements offer a series of statements that focus on major governmental funds. For GCCMHS, the major governmental fund is the General fund. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Financial Statements. Fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

Summary of Net Assets:

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2008 and 2007.

Summary of Net Assets
As of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets	1,885,554	2,960,409
Restricted assets	200,495	193,913
Capital assets	<u>1,040,408</u>	<u>1,084,429</u>
Total Assets	3,126,457	4,238,751
Liabilities		
Current liabilities	685,117	1,210,078
Noncurrent liabilities:		
Long term debt	-	95,000
Compensated absences	<u>209,081</u>	<u>208,747</u>
Total Liabilities	894,198	1,513,825
Net Assets		
Investment in capital assets, net of related debt	1,040,408	585,695
Reserved for risk management	-	27,413
Unrestricted	<u>1,191,851</u>	<u>2,111,818</u>
Total Net Assets	2,232,259	2,724,926

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

Current assets consist of cash and cash equivalents, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and the current portion of notes payable.

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position. The 2008 current financial position is \$1,200,437 a decrease of \$549,894 from the 2007 current financial position.

Restricted assets consist of cash, cash equivalents and accrued interest receivable. These assets are restricted for payment of compensated absences and restricted for risk management.

The remaining assets restricted for risk management are related to the risk obligations for the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance in this account was \$0.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value, net of the accumulated depreciation.

Noncurrent liabilities consist of the liability for compensated absences, which includes vested vacation and sick pay obligations, as well as the long-term portion of notes payable used to acquire and improve buildings.

Unrestricted net assets at the end of 2008 were \$1,191,851 a decrease of \$919,967 from 2007. Unrestricted net assets were 38% of total assets, down 12% from the prior year.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

Summary of Activities:

The following summarizes the revenues, expenses and excess of revenues over expenses on a government-wide basis for the years ended September 30, 2008 and 2007.

Summary of Activities
As of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Department of Community Health Contract	1,486,253	1,453,759
Charges for services	7,765,985	7,628,995
Grants and earned contracts	203,554	156,649
County appropriation	200,000	200,000
Interest income and rents	60,089	80,059
Other revenue income	<u>132,156</u>	<u>147,088</u>
 Total Revenues	 9,848,037	 9,666,550
Expenses		
Personnel costs	4,615,253	4,329,561
Operating costs	5,645,287	5,189,189
Interest on long term debt	10,924	38,905
Depreciation expense	<u>69,240</u>	<u>80,853</u>
 Total Expenses	 10,340,704	 9,638,508
 Excess of Revenues over (under) Expenses	 (492,667)	 28,042

Total revenues for the year were \$9,848,037 an increase of \$181,487 from the prior year.

Charges for services include Medicaid based on a contract with CEI for \$7,637,528 other Medicaid funding of \$107,958 client and third party pay of \$1,617, and other charges for services of \$18,882.

Grants and earned contracts include revenue sources for which the use of funds is restricted to a specific purpose. These grants and earned contracts represent 2.1% of total revenue and have increased \$46,905 from the prior year.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

County appropriation revenue, interest income, rents, and other local income are available to meet state matching fund requirements. County appropriation revenue was unchanged. Interest income, rents and other local income constitute 2.0% of revenue and have decreased \$34,902 from the prior year.

Total expenses for the year were \$10,340,704 an increase of \$702,196 from the prior year. Personnel expense is 44.6% of total expense and has increased \$285,692. Operating expense is 54.6% of total expense and has increased \$456,098 from the prior year.

Notes to Financial Statements:

The notes to the financial statements, which immediately follow the financial statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the financial statements.

Under the contractual requirements issued by the Michigan Department of Community Mental Health (MDCH), GCCMHS began in FY 2002-2003 receiving sub-capitation Medicaid funding directly from Clinton Eaton Ingham (CEI) Community Mental Health. CEI Community Mental Health is the regional Prepaid Inpatient Health Plan (PIHP) responsible for administering mental health and substance abuse services for an eight county affiliation consisting of Clinton, Eaton, Ingham, Ionia, Gratiot, Newaygo, Manistee and Benzie Counties.

The affiliation, known as the Community Mental Health Affiliation of Mid-Michigan (CMHAMM), operates under an agreement pursuant to the Intergovernmental Transfer of Functions and Responsibilities Act. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

The sub-capitated arrangement that GCCMHS has with CEI requires CEI to make a monthly payment to each CMH in the affiliation for Medicaid recipients living in their respective counties. This sub-capitated arrangement allows GCCMHS to provide needed mental health services with great flexibility, as long as GCCMHS complies with Medicaid standards and requirements. The state's Medicaid Mental Health and Substance Abuse Waiver renewal in late 2003 reinforced the requirement on CEI to ensure that Medicaid services are available, accessible, and medically necessary to meet the mental health and developmental disability needs of all of the Medicaid enrollees across the eight county region. This was reinforced through the requirement that the MDCH pay CEI Community Mental Health a single set of Medicaid rates for all of the Medicaid recipients living in the eight counties for which CEI is responsible.

For the 2003/2004 fiscal year the Department of Community Health revised the Medicaid funding distribution based on regional rates. The result was a reduction in Medicaid funding for Gratiot CMH of over 1.5 million dollars. The PIHP allowed its affiliate Boards a two year hold harmless period ending September 30, 2005. The funding formula implemented for the 05/06 Fiscal Year involved a chart review analysis to determine Board specific severity factors. Regional rates were multiplied by the severity factor for each population and age group.

A new process was implemented for Fiscal Year 06/07 to provide affiliates with additional funding above regional rates to help cover the high costs of "Shadow C" consumers. "Shadow C" consumers are severely developmentally disabled consumers who require a higher level of service but were not able to get the higher funding rate from the Habilitation Support Waiver 1915(c) slot due to limited availability.

For Fiscal Year 2008, GCCMHS submitted a budget of projected expenditures against revenue via a steady state model to the PIHP. As a result, GCCMHS' allocation of Medicaid funds was enhanced 1.1 million as a benefit stabilization amount equal to the deficit of projected expenses against projected revenue from capitation payments based on geographical rates. In addition, a budget reduction plan was implemented mid-year resulting in permanent staff reductions, service delivery reductions and the elimination of some programs.

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

Financial Comparisons:

The fiscal year 2008 final budget adopted by the governing board was \$9,703,547 of Revenues and \$10,483,374 of Expenses with a decrease to fund balance of \$779,827. The Actual compared to Budget is presented below.

	Actual	Budget	Variance
Revenues	\$9,847,953	\$9,703,547	\$144,406
Expenses	\$10,693,667	\$10,483,374	(\$210,293)

A comparison of fiscal year 2008 to fiscal year 2007 is presented below.

	2008	2007	Variance
Revenue	\$9,847,953	\$9,866,416	(\$18,463)
Expenses	10,693,667	9,833,337	\$860,330
Revenues over/(under) Expenses	(\$845,714)	\$33,079	\$878,793

Gratiot County Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

Future Outlook:

Fiscal Year 2009 will be an especially challenging year as our PIHP is unable to commit benefit stabilization funds to GCCMHS beyond the geographical rates at this time. Additional budget reductions are planned for Fiscal Year 2009. A new process to distribute waiver slots within the affiliation was developed in 2008 and is currently being revised to prioritize filling waiver slots based on the severity of need of the consumers. GCCMHS continues to rely heavily on additional Medicaid funding over geographical rates due to the proportionately high number of former State Institutionalized consumers, who meet the severity of need criteria, and were placed in Gratiot County without the needed Habilitation Waiver slots. Efforts are continually being made to secure new waiver slots and restore GCCMHS' Medicaid funding to prior year levels.

Other funding is expected to remain relatively stable. The State of Michigan continues to struggle to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown.

Support and service demand is expected to increase together with inflationary cost pressures. Management has continued to combine positions and evaluate vacant positions to manage rising costs using data based decision making. Programs and services are continually being reviewed for appropriate level of care, program effectiveness, caseload sizes etc. The economic outlook will continue to place significant pressure on our ability to serve and support our constituents.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT-WIDE FINANCIAL STATEMENTS**



Gratiot County Community Mental Health Services
Statement of Net Assets
September 30, 2008 and 2007

	Governmental Activities	
	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 1,357,332	\$ 2,490,701
Accounts receivable	51,688	223,771
Due from other governmental units	370,334	142,281
Prepaid expenses	106,200	103,656
Total current assets	1,885,554	2,960,409
Noncurrent assets		
Restricted cash	200,495	193,913
Capital assets - depreciable, net	914,708	958,729
Capital assets - land	125,700	125,700
Total noncurrent assets	1,240,903	1,278,342
Total assets	3,126,457	4,238,751
Liabilities		
Current liabilities		
Accounts payable	560,750	817,301
Accrued wages and other payroll liabilities	104,007	68,981
Due to other governmental units	20,360	21,478
Current portion of long term debt	-	302,318
Total current liabilities	685,117	1,210,078
Noncurrent liabilities		
Compensated absences	209,081	208,747
Notes payable	-	95,000
Total noncurrent liabilities	209,081	303,747
Total liabilities	894,198	1,513,825
Net Assets		
Invested in capital assets, net of related debt	1,040,408	585,695
Restricted for risk management	-	27,413
Unrestricted	1,191,851	2,111,818
Total net assets	\$ 2,232,259	\$ 2,724,926

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Activities
For the year ended September 30, 2008, With Comparative Data

Functions	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense) Revenue and Changes Net Assets	<u>2007</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental activities					
Health & Welfare - Mental Health	<u>\$ 10,340,704</u>	<u>\$ 7,765,985</u>	<u>\$ 2,040,316</u>	\$ (534,403)	\$ (23,709)
General revenues					
Unrestricted investment earnings				41,652	51,614
Restricted investment earnings				<u>84</u>	<u>137</u>
Total general revenues and contributions				<u>41,736</u>	<u>51,751</u>
Change in net assets				(492,667)	28,042
Net assets - beginning of year				<u>2,724,926</u>	<u>2,696,884</u>
Net assets - end of year				<u>\$ 2,232,259</u>	<u>\$ 2,724,926</u>

See Accompanying Notes to Financial Statements.

FUND FINANCIAL STATEMENTS



Gratiot County Community Mental Health Services
Balance Sheet
Governmental Funds
September 30, 2008 and 2007

	General Fund	
	2008	2007
Assets		
Cash and cash equivalents	\$ 1,344,061	\$ 2,463,288
Accounts receivable	51,688	223,771
Due from other funds	13,271	-
Due from other governmental units	370,334	142,281
Restricted cash	200,495	193,913
Prepaid expenses	106,200	103,656
Total assets	<u>\$ 2,086,049</u>	<u>\$ 3,126,909</u>
Liabilities		
Accounts payable	\$ 560,750	\$ 817,301
Accrued wages and other payroll liabilities	104,007	68,981
Due to other governmental units	20,360	21,478
Total liabilities	<u>685,117</u>	<u>907,760</u>
Fund balances		
Reserved for prepaid expenses	106,200	103,656
Reserved for compensated absences	200,495	193,913
Unreserved	<u>1,094,237</u>	<u>1,921,580</u>
Total fund balances	<u>1,400,932</u>	<u>2,219,149</u>
Total liabilities and fund balances	<u>\$ 2,086,049</u>	<u>\$ 3,126,909</u>

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the year ended September 30, 2008

Total fund balance - governmental funds	\$ 1,400,932
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Add:	capital assets	2,269,844
Deduct:	accumulated depreciation	(1,229,436)

Some liabilities are not due and payable in the current period and
therefore are not reported in the funds. Those liabilities consist of:

Deduct:	compensated absences	<u>(209,081)</u>
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Net assets of governmental activities	<u><u>\$ 2,232,259</u></u>
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See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the years ended September 30, 2008 and 2007

	General Fund	
	2008	2007
Revenues		
State Grants		
Department of Community Health Contract	\$ 1,285,665	\$ 1,297,121
Other	200,588	156,638
Total state grants	<u>1,486,253</u>	<u>1,453,759</u>
Federal grants		
Federal block grants	75,102	33,979
OBRA grant	72,622	64,178
Total federal grants	<u>147,724</u>	<u>98,157</u>
Contributions - local units		
County appropriations	200,000	200,000
Other - FIA grants	55,830	58,492
Total contributions - local units	<u>255,830</u>	<u>258,492</u>
Charges for services		
Medicaid - CEI Contract	7,637,528	7,465,252
Medicaid - other	107,958	112,417
Client and third party pay	1,617	35,333
Other charges for services	18,882	15,993
Total charges for services	<u>7,765,985</u>	<u>7,628,995</u>
Interest and rents		
Interest	41,652	51,614
Rents	18,353	28,308
Total interest and rents	<u>60,005</u>	<u>79,922</u>
Other revenue		
United Way	11,680	13,317
Miscellaneous	120,476	333,774
Total other revenue	<u>132,156</u>	<u>347,091</u>
Total revenues	9,847,953	9,866,416

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the years ended September 30, 2008 and 2007

	General Fund	
	2008	2007
Expenditures		
Health & Welfare - Mental Health		
Personnel costs	\$ 4,614,919	\$ 4,303,098
Operating expenditures	5,645,287	5,278,589
Capital outlay	25,219	-
Debt service payments		
Interest	10,924	38,905
Principal	397,318	212,745
Total expenditures	10,693,667	9,833,337
Revenues over (under) expenditures	(845,714)	33,079
Other financing sources (uses)		
Transfer in	27,497	-
Revenues and other financing sources over (under) expenditures and other financing uses	(818,217)	33,079
Fund balance, beginning of year	2,219,149	2,186,070
Fund balance, end of year	<u>\$ 1,400,932</u>	<u>\$ 2,219,149</u>

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the year ended September 30, 2008

Net change in fund balances - total governmental funds	\$ (845,714)
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Deduct: depreciation expense	(69,240)
Add: capital asset purchases	25,219

An internal service fund is used by management to cover the risk
of overspending the Managed Care Specialty Services Program
contract. The net revenue (expense) of this fund is reported
within governmental activities.

Add: net revenue (expense) from governmental internal service fund	84
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Payment of principal on long-term debt is an expenditure in the
governmental funds, but not in the statement of activities (where
it reduces long-term debt).

Add: principal payments on long term debt	397,318
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Some expenses reported in the statement of activities do not require the
use of current financial resources and therefore are not reported as
expenditures in the funds.

Deduct: increase in accrual for compensated absences	<u>(334)</u>
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Change in net assets of governmental activities	<u><u>\$ (492,667)</u></u>
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See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Net Assets
Proprietary Funds
September 30, 2008 and 2007

	<u>Internal Service Funds</u>	
	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	<u>\$ 13,271</u>	<u>\$ 27,413</u>
Liabilities		
Due to general fund	13,271	-
Net Assets		
Restricted	<u>\$ -</u>	<u>\$ 27,413</u>

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the years ended September 30, 2008 and 2007

	Internal Service Funds	
	2008	2007
Non-operating revenues (expense)		
Interest income	\$ 84	\$ 137
Revenues over expenses	84	137
Other financing sources (uses)		
Transfers in (out)	(27,497)	-
Revenues and other financing sources over (under) expenses and other financing uses	(27,413)	137
Net assets, beginning of year	27,413	27,276
Net assets, end of year	\$ -	\$ 27,413

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Statement of Cash Flows
Proprietary Funds
For the years ended September 30, 2008 and 2007

	Internal Service Funds	
	2008	2007
Cash flows from operating activities	\$ -	\$ -
Cash flows from investing activities		
Proceeds from interest earnings	84	137
Cash flows from noncapital financing activities		
Internal activity - payments to other funds	(14,226)	-
Net increase (decrease) in cash	(14,142)	137
Cash and cash equivalents, beginning of year	27,413	27,276
Cash and cash equivalents, end of year	<u>\$ 13,271</u>	<u>\$ 27,413</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

See Accompanying Notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS



Gratiot County Community Mental Health Services
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gratiot County Community Mental Health Services (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Board operates as a Community Mental Health Board under the provisions of Act 258 - Public Acts of 1974, as amended. The Board provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Gratiot County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Board has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Budgetary Data

The Board adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Restricted Cash Equivalents

The Board has charged to the Department of Community Health the vested portion of compensated absences as of September 30. The Board holds a certificate of deposit for payment of the compensated absences liability, which is renewed on an annual basis.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventory

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Board does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Board are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings	10 – 25
Equipment	3 – 20
Vehicles	4

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

Gratiot County Community Mental Health Services
Notes to Financial Statements

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Board. This liability is included in accounts payable and due to other governmental units.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are examples of the latter.

MDCH Revenue

General Fund Revenue

The Board provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Gratiot County.

Medicaid Revenue

Also, the Board contracts to receive Medicaid revenue through the Community Mental Health Affiliation of Mid-Michigan for Medicaid-qualified services rendered to residents of Gratiot County. The Community Mental Health Affiliation of Mid-Michigan contracts with the MDCH to administer these Medicaid funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2008, the Board incurred expenditures in excess of the amounts appropriated as shown at the back of this report.

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

	2008	2007
Petty cash	\$450	\$450
Cash deposits	606,882	1,497,555
Certificates of deposit	950,495	1,186,609
Totals	\$1,557,827	\$2,684,614

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. At September 30, 2008, the carrying amount of the Board's deposits was \$1,557,377, and the bank balance was \$1,594,645. Of the bank balance, \$119,383 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Gratiot County Community Mental Health Services
Notes to Financial Statements

A reconciliation of deposits as shown above follows:

	2008	2007
Cash and cash equivalents – current assets	\$1,356,882	\$2,490,251
Cash and cash equivalents – restricted assets	200,495	193,913
Totals	\$1,557,377	\$2,684,164

Investments

State statutes authorize the Board to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2008, the Board had no such investments.

The Board's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Board's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. The Board requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Board does not have any additional policies for custodial credit risk over investments.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Board's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Board places no limit on the amount it may invest in any one issuer.

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2008	2007
Department of Community Health – CMW Medicaid	\$146,515	\$38,558
Department of Community Health – Various Grants	49,870	57,895
Gratiot FIA	9,453	21,259
Gratiot County	50,000	-
CEI CMH – Medicaid	107,640	8,912
Other Governmental Units	6,856	15,657
Totals	\$370,334	\$142,281

Gratiot County Community Mental Health Services
Notes to Financial Statements

Changes in Capital Assets

A summary of changes in capital assets is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Assets				
Buildings / Land	\$1,344,435	\$6,394	\$-	\$1,350,829
Equipment	314,466	18,824	(12,824)	320,466
Vehicles	598,548	1	-	598,549
Sub-totals	2,257,449	25,219	(12,824)	2,269,844
Accumulated Depreciation				
Buildings	(323,036)	(55,694)	-	(378,730)
Equipment	(254,045)	(11,806)	12,824	(253,027)
Vehicles	(595,939)	(1,740)	-	(597,679)
Sub-totals	(1,173,020)	(69,240)	12,824	(1,229,436)
Totals	\$1,084,429	(\$44,021)	\$-	\$1,040,408

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of amounts due to the Department of Community Health for Inpatient Services.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Long-Term Liabilities – Compensated Absences

Board policy allows full time employees to accumulate “paid time off” at various rates, depending on the employee’s length of service with the Board. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used or upon termination of employment, provided the employee has worked for the Board for at least one year. As of September 30, 2008 and 2007, this liability was \$209,081 and \$208,747 respectively.

Long-Term Liabilities – Building Loans

Building Loan – Wright Avenue

During the 2001 fiscal year, the Board entered into a contract with a local bank to purchase real estate. Payments are due monthly in the amount of \$4,475, including interest at the rate of 5.25% per annum.

Building Loan – Warwick Street

During the 2003 fiscal year, the Board entered into a contract with the County of Gratiot to purchase real estate. Payments are due annually equal to the debt service requirements the County must pay for the related bond issue. Principal payments vary from \$25,000 to \$50,000 per year, and interest rates are from 7.3% to 7.8% per year.

During the year, the following changes occurred in long-term debt:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences	\$208,747	\$334	\$-	\$209,081	\$-
Building Loan – Wright Avenue	358,734	-	(358,734)	-	-
Building Loan – Warwick Street	38,584	-	(38,584)	-	-
Totals	\$606,065	\$334	(\$397,318)	\$209,081	\$-

Gratiot County Community Mental Health Services
Notes to Financial Statements

Operating Leases

The Board has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the leased assets are not reflected in the government-wide financial statements.

The future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, are as follows:

Year Ended September 30,	Amount
2009	\$39,900
2010	22,975
2011	-

Retirement Plan

Plan Description

The Board allows certain employees to participate in the Gratiot County Community Mental Health Employee Alternative Retirement Plan (the Plan). This plan is a defined contribution money purchase pension plan and the Plan administrator is the Chief Financial Officer of the Board. Effective May 1, 2002, all employees of the Board are eligible to participate in the Plan, which provides retirement and death benefits to members and their beneficiaries.

Funding Policy

Employees contribute a mandatory 6.2% of their compensation to this plan. The Employer will contribute a Money Purchase contribution of 7.5% of compensation. Additionally, the employees may be entitled to share in a discretionary profit sharing contribution made by the employer. For the 2008 and 2007 year, this discretionary contribution totaled 6.2% and 6.2% of compensation, respectively.

For the September 30, 2008 and 2007 fiscal year, employer contributions to the plan totaled \$424,789 and \$385,493, respectively. The total payroll for the year ending September 30, 2008 and 2007 was \$3,485,388 and \$3,252,254, respectively.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Employee contributions and the employer discretionary profit sharing contributions vest 100% immediately. The vesting schedule for the employer money purchase contribution is as follows: 0% for the first 2 years of service, 50% after 3 years of service, 75% after 4 years of service, and 100% after 5 years of service.

Compliance Audits

The Board participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Risk Management

The Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Board has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Risk Management – Internal Service Fund

During the September 30, 1998 fiscal year, the Board authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Board finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Board by the contract.

Gratiot County Community Mental Health Services
Notes to Financial Statements

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REQUIRED SUPPLEMENTAL INFORMATION



Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2008

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local	\$ 386,417	\$ 343,348	\$ 447,991	\$ 104,643
State	9,390,359	9,211,201	9,252,238	41,037
Federal	87,322	148,998	147,724	(1,274)
Total revenues	<u>9,864,098</u>	<u>9,703,547</u>	<u>9,847,953</u>	<u>144,406</u>
Expenditures				
Health and Welfare	9,966,829	10,075,606	10,285,425	(209,819)
Debt service	91,810	407,768	408,242	(474)
Total expenditures	<u>10,058,639</u>	<u>10,483,374</u>	<u>10,693,667</u>	<u>(210,293)</u>
Revenues over (under) expenditures	(194,541)	(779,827)	(845,714)	(65,887)
Other financing sources				
Transfer in	<u>-</u>	<u>-</u>	<u>27,497</u>	<u>27,497</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(194,541)	(779,827)	(818,217)	(38,390)
Fund balance, beginning of year	<u>2,219,149</u>	<u>2,219,149</u>	<u>2,219,149</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,024,608</u>	<u>\$ 1,439,322</u>	<u>\$ 1,400,932</u>	<u>\$ (38,390)</u>

See Accompanying Notes to Financial Statements.

OTHER SUPPLEMENTAL INFORMATION



Gratiot County Community Mental Health Services
Supporting Schedule of Personnel Costs
For the years ended September 30, 2008 and 2007

	<u>General Fund</u>	
	<u>2008</u>	<u>2007</u>
Personnel costs		
Salaries and wages	\$ 3,485,388	\$ 3,252,254
Fringe benefits	<u>1,129,531</u>	<u>1,050,844</u>
 Total personnel costs	 <u>\$ 4,614,919</u>	 <u>\$ 4,303,098</u>

See Accompanying Notes to Financial Statements.

Gratiot County Community Mental Health Services
Supporting Schedule of Operating Expenditures
For the years ended September 30, 2008 and 2007

	General Fund	
	2008	2007
Operating expenditures		
Conferences	\$ 36,897	\$ 35,458
Contractual services	3,465,352	3,193,453
Dues / subscriptions	12,304	14,504
Indigent hospitalization	409,311	298,232
Institutional cost	283,143	238,359
Insurance	81,297	82,540
Mid-Michigan Industries program	378,505	370,670
Other	24,169	30,641
Printing / publishing	5,085	7,451
Rehabilitation costs	20,945	19,545
Rental	145,299	145,492
Repairs and maintenance	114,681	130,616
Respite care	86,560	87,801
Small equipment purchases	22,515	95,495
Supplies	209,617	239,542
Telephone	72,659	85,807
Travel & transportation	161,800	88,102
Utilities	115,148	114,881
Total operating expenditures	<u>\$ 5,645,287</u>	<u>\$ 5,278,589</u>

See Accompanying Notes to Financial Statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Gratiot County Community Mental Health Services
Alma, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gratiot County Community Mental Health Services (the Board) as of and for the year ended September 30, 2008, which collectively comprise the Board's basic financial statements and have issued our report thereon dated January 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated January 8, 2009.

Gratiot County Community Mental Health Services' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 8, 2009

Schedule of Findings and Responses

Finding 2008-1

Finding considered a significant deficiency

Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The staff of the Board does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



MANAGEMENT LETTER

Board of Directors
Gratiot County Community Mental Health Services
Alma, Michigan

In planning and performing our audit of the financial statements for Gratiot County Community Mental Health Services for the fiscal year ended September 30, 2008, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 8, 2009, on the financial statements of Gratiot County Community Mental Health Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage & Co, PC'. The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 8, 2009

Segregation of Duties

During our audit we noted that Gratiot County Community Mental Health Services has taken significant steps to improve internal controls as they relate to the segregation of duties. We commend you on this effort. However, we did note some areas where additional segregation would continue to improve the internal controls of the Board. These areas are as follows:

- Deposit of receipts: we recommend that amounts received through the mail be deposited by an individual independent of the individual opening the mail.
- Opening of mail: As mail is opened, a list of all checks received should be prepared noting the check number, amount and payor. Also, the list should identify to whom the checks were given to deposit. This listing should then be signed and dated by the individual opening the mail and forwarded to an individual independent of the depositing and receipting functions for use in reconciling bank accounts. Also, we noted that mail is currently opened by one individual who is independent of the finance department. This independence is important in relation to segregation of duties. Further internal control over funds received through the mail could be achieved by including another individual, independent of the finance department, in the mail opening process.

Have Management Review and Approve Bank Reconciliations

During our audit we noted that bank reconciliations are done by accounting personnel and they reconcile with the general ledger. However, these reconciliations are only periodically reviewed by management. We recommend that the reconciliations be signed and dated by the preparer and be reviewed monthly by a member of management. This review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. Once the review is completed, the reconciliation should be initialed by the reviewer as evidence that the review had taken place.

Have Management Review and Approve Adjusting Journal Entries

During our audit we noted that adjusting journal entries are completed by accounting personnel and are reviewed by management, but indication of this review is not always apparent on the journal entry. We recommend that once the review is completed, the adjusting journal entry should be initialed by the reviewer as evidence that the review had taken place.

Uninsured Bank Deposits

During recent months the financial market has seen significant fluctuations leading many to question the security and availability of bank deposits held in financial institutions. Although most banks insure deposits through the Federal Deposit Insurance Corporation (FDIC), there are limits to that coverage.

It is our understanding that as of October 2008, the limits for FDIC insured balances are \$250,000 per entity per financial institution. Governmental units may also request certain funds be collateralized by the bank. There are also other options regarding the investment of surplus funds including investment pools, treasury investments, and commercial paper.

We are not investment advisors. However, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review your investment policies to ensure it continues to satisfy the Board's goals.